GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:2055
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PROVISION OF NPA
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Will the Minister of FINANCE be pleased to state:

(a) the provision adopted by banks for placing funds under Non-Performing Assets (NPAs);

(b) whether the funds of banks are turning into NPAs despite legal provisions;

(c) if so, the problems being faced in recovery ofloan in time; and

(d) the remedial measures taken by the Government in this regard?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI PAW AN KUMAR BANSAL)

(a) Reserve Bank of India (RBI) has issued `Master Circular on prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to advances`, As per provisions of this Circular, an asset, including a leased asset, becomes non-performing when it ceases to generate income for the bank.A non-performing asset (NPA) is a loan or an advance where interest and/ or instalment of principal remain overdue for a period of more than 90 days in respect of a term loan, the account remains `out of order` in respect of an Overdraft/Cash Credit (OD/CC), the bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted, the instalment of principal or interest thereon remains overdue for two crop seasons for short duration crops, the instalment of principal or interest thereon remains overdue for one crop season for long duration crops, etc.

(b) The factors responsible for NPAs,inter-alia,include diversion of funds by the borrower and wilful default in repayment, deficiency in credit appraisal and supervision, inefficient management of the unit financed, poor follow up and monitoring, non-viability or sickness of the unit due to change in technology, demand pattern and other policy etc., non-completion of project due to cost and time overruns and certain other external factors, such as, non-availability of raw materials etc., labour problems, natural calamities, etc. However, the banks monitor their loan accounts at various levels and take appropriate corrective action, on an ongoing basis, to arrest slippages to NPA category.

(c) & (d) To improve asset quality of the banks, to create a good recovery climate and for expeditious recovery ofNPAs,Reserve Bank of India (RBI) and the Government of India have taken various steps which,inter-alia,include prescribing prudential norms for provisioning and classification of nonperforming assets,guidelines for prevention of slippages,introduction of Corporate Debt Restructuring mechanism,One Time Settlement schemes,enactment of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002, the Credit Information Companies (Regulation) Act, 2005, and the Recovery of Debts due to Banks and Financial Institutions (DRT) Act, 1993 etc. The banks take appropriate measures to recover their NPAs in accordance with their loan recovery policies.